The Mortgage Banker

FEBRUARY 1949

➤ *Dean G. Rowland Collins of NYU, guiding hand of the MBA-NYU Educational Course. See inside front cover.*

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The Mortgage Banker

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SALUTE TO DEAN COLLINS

This month as MBA, in cooperation with the Graduate School of Business Administration of New York University, opens its third annual educational course for senior executives in New York, THE MORTGAGE BANKER salutes the man who has played a principal role in creating one of the most important activities any trade association undertakes.

For the past two years those who have attended have come away with the feeling that a curtain had been pulled aside for them, that they have been permitted to see at first hand some of the intricate and complex mechanisms which make the business economy function. For that is what the course is designed to do—show senior executives in our industry the broad basic developments and trends that have the most vital influence on mortgage lending, demonstrate what they mean and how they should be interpreted.

To Dean Collins MBA owes a considerable debt. It is largely through his efforts that the association has been able for these past two years to make this significant and important contribution to clearer thinking and better understanding in the mortgage lending industry.

Dean Collins last year was appointed dean of the School of Commerce and acting director of the University's Institute of International Finance. He had served as acting dean since the death of Dean John T. Madden in July. He continues as dean of the Graduate School of Business Administration, which he has headed since 1943. He is also a director of Manhattan Life Insurance Co. and consulting economist for the Dade Aircraft Corp.

WE NEED A CENTRAL MORTGAGE BANK

★ *We need it, says Wallace True, to provide broad discount facilities for the industry and make mortgage credit better available in varying periods of the business cycle*

THERE is a demonstrable necessity for a central mortgage bank. As matters stand now in this country, there are no adequate discount or resale facilities available in the mortgage field except on a very localized basis such as the Savings Banks Trust Company in New York.


Wallace W. True

One of the functions of the Savings Banks Trust Company at the time of its creation was to provide facilities similar to that of a central mortgage bank for the New York State savings bank system which owns the Trust Company. In addition, there are limited rediscount facilities available in the savings and loan field through the operations of the Federal Home Loan Bank and in the farm field through the Farm Credit Administration. However, these are specialized types of institutions and do not by any manner of means do the whole job.

The proposal which some of us have been exploring in New York would be the creation of an all-around central mortgage bank owned by the institutions which propose to use it and designed to prevent, if possible, through its form of organization further encroachment by the government in the mortgage business.

» EUROPE'S EXPERIENCE: Very little discussion is required, of course, as to the effect of the existence of such a bank in the stabilization of the mortgage market. Mortgage banks abroad have functioned for many years. In Sweden there is the monopolistic Swedish National Mortgage Bank owned by the State; in France, the joint-stock Credit Foncier de France; in

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The idea of a central mortgage bank isn't new. Every year, for the past twenty or more, various people have been suggesting something along these lines. Many mortgage bankers who, a decade ago, didn't think much of the idea, now think it might be a good thing. Others have long contended that it has been badly needed. No doubt others who were opposed in the past do not think any better of the suggestion now.

But it is a proposal that deserves a thorough investigation and that is what it will soon receive at the hands of a special committee which President Nielsen has just named to explore all the possibilities of such an undertaking. (See announcement of members in March issue.) When they have come up with their findings and reached some conclusions, members will be advised. The whole thing is likely to stimulate some provocative thinking and discussion.

At the moment, of course, MBA has no position in the matter. Mr. True, who is a member of the Board of Governors and vice president of the Lincoln Savings Bank in Brooklyn, here states the case for a central bank. What do you as a mortgage banker think of the idea? The editor solicits your opinion.

By Wallace W. True

Denmark, the Co-operative Credit Association of Landlords in Copenhagen covering farm lands; and in Holland, The Overijeelsche Hypotekbank. There are also a number of others in South America and in Germany and through the whole of Eastern Europe. The plan of organization contemplated would be to use the Federal Reserve System as a model with a central bank board and a series of district banks, probably one to each Federal Reserve district.*

Ownership of these banks would rest with any type of institution whose regular business is the making, or purchasing for its own account, of mortgages on urban property. The initial capital of the bank would be subscribed by the owning institutions on the basis of an agreed amount of subscription to be related to the size of the mortgage account of the subscribing institution. As an example, an institution with $10,000,000 worth of mortgages might be required as a condition of membership in the bank system to subscribe to $100 worth of stock for each million dollars of mortgages held. The income from the sale of this stock would be used to establish the bank and to make its first purchases and/or loans.

» BROAD POWERS: The bank would have broad powers under its charter to engage in the mortgage business. Such powers, however, would be limited to its right to purchase from its stockholders, or to loan upon mortgages tendered to it, by its stockholders as security for loans.

Under these powers the system would acquire mortgages in any one of several ways:

- » By purchase at par or at a discount, mortgages offered to it by its stockholders.
- » By loaning an agreed upon discounted amount of the face, the mortgages to remain the property of the borrowing institution but the instruments themselves to be deposited as collateral security for loans made.
- » By outright purchase with recourse against the issuing stockholder. The bank would have the right to turn back to the issuing institution any mortgage or mortgages going into default.

One of the rights of this institution would be to resell these mortgages to other members of the system or to use them as a basis for collateral for its own bonds or debentures. The rate of interest to be charged on the loans and to be paid on the debentures would be governed by market conditions at the time the loans or purchases are made.

In the event of outright purchase, the institution tendering the loans for purchase would agree to service the loans for the bank at agreed servicing standards and upon an agreed scale of fees. The issuing institution would further agree that in the event of the sale to another participating institution in the system to give up servicing at the request of the central bank.

» PUBLIC PARTICIPATION: As we envision the plan, by the time the first capital is fully invested the bank should be sufficiently well-established that it could offer to the public its securities probably in the form of debenture notes secured by the faith and credit of the bank and probably with an agreement that during the life of the issue the general mortgage securities held by it together with the bank's unobligated capital and surplus would be at least 125 per cent of the remaining balance of the debentures outstanding.

The rate of interest to be carried by the debentures would probably be a point to a point and a half less than the average rate of the mortgages securing the issue. Provision should be made in the case of defaulted mortgages for the removal of defaults from that portion of the portfolio allocated to the security of the debenture.

This, in broad outline, is the plan. Going back to normal times in Europe, the yield of bonds of the mortgage banks and the yield of government bonds of the same country were on approximately a parity basis. In some countries the mortgage bank bonds showed a lower yield. For example,

*Newest proposed mortgage bank is the General Mortgage Bank of Palestine, Ltd. To raise capital for it, a $3,500,000 debenture issue was registered with the SEC but was recently withdrawn. A revised registration is expected soon.—Editor

in 1913 Germany's mortgage bank bonds (38 banks) showed a yield of 3.84 per cent while the 4 per cent government loan sold on a 4.07 basis; in France the mortgage bonds of the Credit Foncier for the years 1913, 1918 and 1927 showed yields of 2.98, 3.18, and 4.68 per cent respectively while the government perpetuals or Rentes showed, in the same period, 3.30, 4.12, and 5.32 per cent.

» LIQUIDITY THE GOAL: The overwhelming advantage of this bank, it seems to us, would be to provide liquidity in our mortgage accounts. It would, except in times of extreme depression, make it unnecessary for a lending institution to go out of the market for mortgages at any time. If the institution felt that it was getting too high a percentage of mortgages, it would simply sell a portion of its holdings to the central mortgage bank which, in turn, would issue debentures against it, and sell its debentures to the public, thus providing the institution which originally made the loans with additional funds with which to continue its lending.

If, on the other hand, a particular section of the country had a capital surplus it could, either through the purchase of the debentures or as an owning institution, buy for its own account mortgages from the central bank for its investment portfolio.

Organization of such a bank, widely owned as it would have to be to operate successfully, would, it seems to us, go a long way toward removing the bugaboos which exist in the minds of many financial executives regarding mortgage investments because of their long term "lock-up" character.

LIFE COMPANIES' BIG STAKE IN MORTGAGES

★ They bought $3-1/3 billion of loans last year — a record — and they own over $10-3/4 billion; 1949 purchases will be large

THAT there will be ample money available in 1949 for all mortgage needs was one of the principal things THE MORTGAGE BANKER learned in its survey of key members on the new year's outlook as reported in our January issue. That appraisal of the market outlook for loans of course includes the life companies which give every indication that mortgages will continue to be one of their prime investment media.

What's the mortgage story in recent years as it concerns the life companies? Everyone knows they have been heavy purchasers but as 1949 opens, the statistics are worth every lender's scrutiny to secure an appreciation of just how heavily they have purchased our loans in recent years.

» 1948 A BIG YEAR: More than $3,300,000,000 of their funds went into mortgages during 1948, a record volume and up $600,000,000 over the previous year, the Institute of Life Insurance reports.

At year end, total mortgage holdings of more than 500 life companies were valued at $10,825,000,000. This is $2,150,000,000 more than at the start of the year and gives an indirect mortgage investment per policyholder of about $140 or about one-fifth of total funds held per policyholder. Mortgage investments of the life companies are now nearly double those of 1938.

FHAs accounted for well over a billion dollars of the year's new financing by the life companies and at the close of the year their holdings of these loans are estimated at $2,350,000,000.

Their GI loans continued in large volume during 1948, with more than $400,000,000 purchased. Their holdings of such

mortgages at year end are estimated at $1,225,000,000.

» PREFER CITY LOANS: Real estate mortgages have been the second largest investment channel for life insurance funds in the postwar period. The 1948 increase in mortgage holdings of life insurance companies of about $2,150,000,000, is over one-third larger than last year's increase and about four times as large as the 1946 increase. Non-farm mortgages made up the bulk of the increases in all three years but farm mortgages also contributed.

Total mortgage holdings of the life companies at the end of 1948—estimated at $10,825,000,000 or 19.5 per cent of assets—will include loans of about $9,800,000,000 on non-farm real estate and of about $1,025,000,000 on farms. Both classes of mortgages have risen in proportion to assets during the postwar period, but farm mortgages only moderately. At the end of 1948 non-farm loans will represent 17.7 per cent of assets as against 13.1 per cent at the end of 1945; and farm mortgages 1.9 per cent compared with 1.7 per cent at the end of 1945.

Latest final figures on life company investments are contained in *Wall Street Journal's* weekly tabulation of investments of 42 major companies which show city loan purchases for week ending January 1 as $44,005,984 as against $39,106,477 in comparable week a year ago. For 53 weeks ending January 1, purchases were $2,086,035,535 as against $1,803,852,877 in preceding 53 weeks.

» REALTY IS UP: The life companies' activities in real estate deserve attention too. Although they increased their real estate holdings by nearly 50 per cent in the last two years, such properties at the end of 1948 will make up only about 1.9 per cent of their assets and will total about $1,050,000,000.

Acquisitions of residential and commercial properties for investment purposes more than account for the 1947 and 1948 increases—of $125,000,000 and $190,000,000 respectively—in the total real estate holdings of life insurance companies. Well over half of the real estate held by such companies at the end of 1948 will represent properties acquired for investment purposes.

And while we are looking at the life companies' position in the mortgage industry, recent department of commerce data gives us an insight into how the nation's mortgage debt has risen in recent years. Here is how the life companies' holdings of mortgages on one- to four-family residences and multi-family and commercial properties are estimated to stand at the end of 1948 along with comparisons for several years in the past decade.

1939	$4,858,000,000
1945	5,934,000,000
1946	6,432,000,000
1947	7,815,000,000
1948	9,000,000,000

Note that the nine billion dollar government estimate varies with the 10½ billion dollar estimate by the industry itself and it's due of course that the former figure isn't as inclusive as the latter.

And while we're at it, let's take a look at the government's estimate of the total mortgage debt of the country at the end of 1948. It varies with our own survey which doesn't come out for several months and which is based upon final official figures with the exception that we strike an estimate as to how many mortgages were made by individuals. The department of commerce thinks our total city and farm mortgage debt hit about $57,000,000,000 at the end of 1948. And that's probably considerably larger than you probably would have guessed. Here's how the figures for total U. S. mortgage debt stack up against several recent years of the past decade.

1939	$36,900,000,000
1945	36,366,000,000
1946	42,751,000,000
1947	50,354,000,000
1948	57,000,000,000

What's significant about the above is the big increase since 1946. What's more significant is that while the increase has been swift, the debt represents a sounder mortgage structure than the country has known before.

HOW 1949 SHAPES UP AS I SEE IT

★ *One of our leading authorities on real estate trends tells here how he is thinking about mortgages, office buildings, interest rates, etc., in 1949*

By Roy Wenzlick

I WILL not be dogmatic in my forecasts, although I realize that every forecast has to be somewhat dogmatic. Every time we make a mortgage, we are making a forecast of the future.

When I think about the real estate and mortgage situations today, one thing always comes home to me forcefully: *No boom has lasted forever.* I should like to see that on a placard in the office of every banker in the United States.

» NO LITTLE BOOMS: As a regular thing in the past, every real estate boom goes to excess and every real estate depression is a serious depression. We have no little real estate booms.

Many of you have read the book published in 1947 by Dewey and Dakin on cycles, in which they point out the various cycles which are operating in different types of business in the United States. One cycle may be going up while another cycle is going down.

In their opinion, all of these cycles will be in their downswing in the period around 1952; they assume we are going to head into major economic trouble in the United States about that time.

I don't follow that exactly. It seems to me that there is still enough resiliency in the picture to carry us much beyond that date. It seems to me that we couldn't expect the bottom of our next big depression before 1955; and, in my own thinking, I wouldn't be at all surprised to see it as late as 1957.

» NO PRE-WAR COSTS: In my opinion, if we go into a depression in the middle fifties, construction costs will not drop back to the pre-second World War figure and, in all of our thinking, we are assuming that a large part—and I mean a large part of the inflation we have had in our economy —is a permanent change in our base.

We think it entirely improbable that we will have too large a drop in construction costs.

From here on, I am guessing. I am trying to guess what may happen to construction costs in this period ahead. I am not guessing because I want to guess; it is always difficult, it is always hazardous. I think construction costs are about at the peak. However, I don't see very much trend one way or the other until about the middle of 1949, and then I see a slow decline.

In 1932 at the bottom of that depression, construction costs were only 17 per cent higher than they were in that pre-war period. I am assuming they are going to be about 73 per cent higher. I definitely believe we will not go back to anything like our pre-war price level.

» LOW RATES BEHIND US: Another long-range factor is interest rates, because the interest rate affects the value of all existing buildings. If interest rates are low, we capitalize with a low rate when we try to figure the value of existing properties. When interest rates are high, the story is just turned around, and that has a tremendous effect on the values of investment properties.

We have gone through a period of very low interest rates which enabled a tremendous amount of business to be done, which otherwise couldn't have been done.

I think I would agree with practically

all economists that the low in interest rates has been passed. I think the 4 per cent rate on loans is gone; it is gone for GI's, and unless the government makes direct loans, I think that it is absolutely essential that the rate be increased to 4½ per cent. Many loans that have been made at 4½ per cent will be made at 5 per cent; ones that have been made at 5 per cent will be made at 5½ per cent, but interest rates are going to creep up very, very slowly. We will not get a tremendous increase in interest rates at any time in the foreseeable future, largely because of the government policies.

» AS TO TAXES: Another factor is taxes, and we have been forecasting for a number of years that there was only one way that real estate taxes could go. All city and state governments need money.

The value of real estate has gone up in relationship to the old assessments, and clearly these governments needing money would naturally turn to increasing assessments more nearly in line with present values.

The only difficulty with taxes going up now as values increase is that they won't come down when values drop, and we are going to go through the same situation in the '50's, in the late '50's probably, that we went through in the late '30's.

» SCARCITY FACTOR: Now, let's look at some of the short-range factors. In the short period, let's put it this way: at any particular time the price for which any type of real estate will change hands will depend almost entirely on the relationship of the supply of that particular type of property in that community to the demand for it. That is self-evident, of course.

But if we thoroughly understand that, we must realize that a part of the price for which at least residential property has been exchanging hands in the recent past, is a scarcity premium — the amount that the average person is willing to pay for shelter because he couldn't get shelter in any other way—that is a very real part of the price. The scarcity premium will only be paid so long as the scarcity continues.

» SHORTAGE ENDS IN 1950: Various studies we have made indicate that the scarcity premium has been shrinking. It is our guess that it is going to disappear entirely by 1950, and I think that the housing shortage as a real shortage is going to be over by 1950. That may be quite a surprise to a lot of people who have spent most of their time trying to find a place to live, and who have offered all sorts of premiums, but a housing shortage can melt away in a hurry if we get a change in economic conditions.

We have been building at a pretty rapid rate, but we are not going to build as fast in 1949 as we did in 1948. We are going to build fewer dwelling units. I don't know how big that drop is going to be. I think it may be, on the number of dwelling units, as great as 10 per cent.

We are also going to build a lot of "co-op" apartments in 1949. I think they are unwise. I think they would certainly be unsafe as mortgage investments, and the only reason we are going to build them is that the federal government, through the FHA, is going to make credit ridiculously easy on that type of development.

I have been a great admirer of FHA in the early period. I am starting to become an opponent of FHA. I believe that the policies that FHA is starting to follow are as unwise as a great deal of the very unwise financing of the guaranteed mortgage bond houses in the late twenties.

» THE RISKS WE TAKE: It seems to me that to generate a tremendous volume of building with building costs at their present height in the United States, is running the risk of putting these buildings in competition, four or five years from now, with buildings built at a cost, possibly one-third less.

If we build a building today and if we can build a duplicate of that building four or five years from now for one-third less than our present building is built, and if the thing is financed with a very slim equity, many of the owners of these buildings are going to find that they could build a new building for less than they owe on the old one.

I have often said if you want to know when foreclosures are going to rise rapidly, you don't have to subscribe to my reports. Whenever the average individual finds that he can buy a new building for less than he owes on the old one, you are going to have a very rapid rise in the foreclosure rate.

Foreclosures at the present time are dragging along the bottom of our chart. In the last three years they have averaged lower than in any other period in the history of the United States as far back as our figures go. That doesn't mean we solved foreclosure problems; it merely means that in an inflationary period, when values are going up, when construction costs are going up, even 100 per cent loans may become safe—and I have seen some 110 per cent loans that have become safe in the recent past. On the other hand, reverse these factors and the scarcity premium, which has been going up, may turn around. I am guessing that the scarcity premium is going to become a surplus discount on this type of unit by the middle fifties.

» MORTGAGE TEST: My way of testing a mortgage to see what might happen would be to chart the amount still owed on the principal in any year in the past, and if my line gets very far below the amount still owed on the principal, it is my opinion you are going to have some difficulty with that general type of loan.

Most of us at the present time are hesitating between two general ideas. On the one hand, we are very much afraid of further inflation. On the other hand, we see many indications that deflation is actually setting in. It is my opinion that we can't postpone deflation very much longer, but I think that we might be able to use the hypodermic again and, for a while, might get some inflationary effects and stave off some of the deflationary effects that many of us have been dreading.

My contacts with large organizations, in addition to our own figures, are swinging me toward the deflationary side. The other day I talked with the economist of one of the three largest corporations in the United States. He told me the various studies they have been making had convinced them that for the first time since 1933, the deflationary factors balance the inflationary factors.

In the past, regardless of what happened, we always had that inflationary balance to carry us through—and it did. But now, if they are right—and I am rather inclined to think they are—we are sailing on pretty much of an even keel. Any change in economic conditions, something that in the past might not have affected us at all, might start one of these downward spirals.

» OFFICE BUILDINGS: I am still optimistic on office buildings. If I owned an office building, almost any place in the United States, I would continue to own it. I believe that the great increase we have had in construction costs is going to make it impossible to build a new office building in competition with buildings at the rates per square foot they are now getting. One of two things would have to happen: either construction costs would have to drop by a bigger percentage than I think they are going to or else the square foot rentals on existing space will have to increase.

We have been plotting the average rentals of all office buildings in the United States quarterly since 1925. We have also been plotting the vacancies in office buildings, and vacancy, as you may know, in the last two quarters has increased by a very small amount, but the increase in vacancy is far less than the decrease in federal occupancy. Some of the war bureaus have been going out of business, and as they have, they have made space available, and private industry has been absorbing that space almost as fast—not quite, but almost as fast—as the government has been releasing it. So there has been a very small increase in office building vacancy.

» APARTMENTS: I think big apartment buildings are going to be faced with the competition of a lot of very unwise building of "co-ops" and of other government-insured apartment units. In the lower price groups, they are going to be faced with the competition of subsidized housing.

We are going to have a continuation, and a very exaggerated continuation, during the next four years of our subsidized building projects.

» **AS TO FARMS:** If I owned a farm today, I wouldn't sell it if I were a good farmer and operating that farm myself. If I weren't a good farmer, if I held that farm purely as an investment, I would sell it.

» **DOWNTOWN PROPERTY:** If I owned a good downtown business location, let's say a 100 per cent location, I would sell it on today's market, provided I was trying to get the largest price I could get. If, on the other hand, the principal thing I wanted was a steady income, possibly a little smaller than my present income but a steady, safe income over a period of years, I would continue to hold it. In my opinion, department store sales and retail sales generally in 1948 hit an all-time peak. They are running below that now. I think that in 1949 they will run below 1948; and since all values on retail properties, in the last analysis, depend almost entirely on the volume of business that can be done in a location, if the dollar volume of business drops in the various retail locations, their dollar values will also drop.

VA SAYS NO ON 4½% RATE

★ *Now what happens to the market? W. A. Clarke says dilemma partly is due to so few people actually understanding what the 4% rate does*

NOW that Carl Gray has rejected the proposal to increase the GI interest rate to 4½ per cent, the question is what will happen to the veterans' home loan program? The market for 4 per cent loans is rapidly disappearing and has been for months and the reason of course is obvious to all.

W. A. Clarke

Mr. Gray declared he didn't believe the best interests of the veterans would be served by the increase. Without in any way implying that he was subjected to pressure to retain the 4 per cent, it has been widely known that other government agencies concerned with fiscal matters have been strongly opposed to the increase. Many influential veterans' organizations have also been against it. Some of their spokesmen have suggested blandly that either lenders make these loans at 4 per cent or the government should step in and do so.

That's the direct lending MBA members heard about from Sen. McCarthy back in September at our annual convention but haven't heard so much about in recent weeks. Among all the economic proposals, plans, projects and ideas which came to light in January—in the President's messages and from other sources—direct lending was not among them. But it has been pointed out that if the government should actually go into the steel business on the direct basis the President said might be necessary, the possibility of direct mortgage lending can't be brushed aside lightly.

W. A. Clarke, president of the W. A. Clarke Mortgage Co. of Philadelphia, believes that the opposition to an increase in rates—clearly called for by the law of supply and demand—is due basically to the fact that so few people really understand the investment economics behind this lending operation, the competition which the 4 per cent loan has and the high cost of servicing a mortgage loan as against other forms of investment.

"The 4 per cent rate for 501 loans has forced many lenders into requiring veterans

to finance their purchases under 505. The individual without experience in the mortgage business does not understand the increased cost the 505 mortgage imposes on the veteran as against the cost of a loan under 501, even if the rate was 4½ per cent. The best way to see this is to look at actual figures.

"Here are some data I have compiled and which illustrate what I mean (*also see table next page*):

"For example, here is a comparative schedule of charges in Philadelphia for loans insured under 501 and 505 on a $7,500 loan:

	Section 501	Section 505
VA appraisal fee..	$15.00	$15.00
FHA appraisal fee.		19.20
Preparation of VA mortgage	30.00	30.00
Preparation of FHA mortgage		10.00
Recording VA mortgage	9.00	9.00
Recording FHA mortgage		9.00
Acknowledgement VA mortgage ...	1.50	1.50
Acknowledgement FHA mortgage ..		2.25
TOTAL	$55.50	$95.95

"Interest and principal figures used in my table next page were taken from FHA amortization schedule or, in the case of the second mortgage portion of the 505 mortgage, from an amortization schedule supplied by a life company on a $1,100 second mortgage they hold. I believe the figures are accurate.

"I used a $7,500 mortgage because it is close to the average GI loan we have been closing. The term of 20 years was again our average and the life of the loan was set at 10 years because it appears to be the average life of a mortgage these days. A summary of the figures illustrating a $7,500 mortgage and assuming a 4½ per cent rate of interest for a 501 mortgage, is:

	Section 501	Section 505
Closing costs	$ 55.50	$ 95.95
Interest payments for 10 years.....	2,771.14	2,973.26
Total	$2,826.64	$3,069.21
Deduct VA gratuity on 50 per cent of the mortgage in the 501 mortgage, or the second mortgage in the case of the 505 mortgage ...	$ 150.00	$ 44.00
	$2,676.64	$3,025.21
Ten-year difference in cost of 505 mortgage over cost for the same loan under 501, assuming a 4½ per cent rate....		$ 348.57

"It hardly makes sense for the VA, because it arbitrarily holds to a 4 per cent rate on 501 mortgages, to force veterans into financing their home purchases under another section of the Act, which, over a ten-year term, costs the veteran $348.57 more money, or to put it percentage wise, costs him 4.64 per cent more, or over one year's interest on $7,500 at 4½ per cent.

"I think the VA and the treasury department should be realistic and consistent. One government agency, FHA, dôes business at 4½ per cent. The VA does business, or tries to, on two rates, namely 4 per cent on 501 loans and higher than a 4½ per cent rate on 505 loans. The 501 loan at 4 per cent interest today does not compete in the market.

"No lender can create a 501 mortgage for much less than 1 per cent. The paper work is large and the detail extensive. The law prohibits a charge against the veteran and our experience has been that the ultimate mortgagee paid it by paying a premium of 1 per cent of the mortgage.

"If this acquisition premium is written off by the lender in five years, it automatically reduces the gross interest rate two-tenths of 1 per cent, to a 3.8 per cent yield.

"Second, the loan correspondent is paid a standard service charge of ½ of 1 per cent for servicing. This charge further reduces the net yield to 3.3 per cent.

"Third, the cost for acquisition and servicing of dwelling mortgages to the perma-

Comparison of interest charges on $7,500, 4½ per cent 501 Mortgage and 505 Mortgage divided into $6,400 FHA, Section 203 and $1,100 VA Second Mortgage. Term of loan 20 years. Life of loan the estimated average of 10 years.

	Section 501 Assumed Rate of 4½%	Section 505 $6,400 FHA $1,100 VA
Required monthly payment	$ 47.48	$ 49.72*
Total payments for 10 years	5,697.60	5,966.40
Unpaid balance at end of 10 years		
VA Loan	4,573.54	657.77
FHA Loan		3,903.69
Total	$4,573.54	$4,561.46
Principal reduction in 10-year period	2,926.46	2,938.54
Total interest paid		
VA Loan	2,771.14	358.17
FHA Loan		2,364.89
FHA mortgage insurance premium		250.20
TOTAL	$2,771.14	$2,973.26
		$2,771.14
Interest charges for 10 years under present 505 exceed interest charges on a 501 — 4½ per cent loan by		$ 212.12

*Reduces each year as FHA mortgage insurance premium reduces.

nent mortgagee is heavy. He, because the mortgage is not fully insured, must maintain an inspection and underwriting staff. He has expensive bookkeeping. There are twelve entries a year, plus escrow funds for the payment of taxes and insurance and the payment of these items when due. Most mortgagees I know claim that these two items cost another ½ of 1 per cent a year, thus reducing the actual net yield on a 4 per cent mortgage to 2.8 per cent.

"And a 2.8 per cent net yield from a 4 per cent mortgage is just not attractive when high grade bonds are available to yield 3.75 per cent, 4.00 per cent and higher.

"A five million dollar investment in bonds is one transaction and is but two interest and principal bookkeeping entries a year. An equivalent five million dollar investment in 501 mortgages, using an average loan of $7,500, would mean the purchase of approximately 666 individual loans, and because collections are made monthly, 7,992 bookkeeping entries a year. To justify all this work the net yield on mortgages should be higher than high grade corporate bonds."

TOO MUCH SAYS TAFT

★ To tell his ideas at MBA NYU Senior Executives Course

The President had hardly finished his state of the union address in which he recommended a million rental units in seven years before Sen. Robert A. Taft said it was "too much" and voiced general disapproval. Those fortunate few MBA members who have been accepted for registration at MBA's senior executives course will hear Sen. Taft give his ideas on the federal government's role in housing when he speaks at the opening session of this Conference on the Impact of Economic Interventionism upon Mortgage Finance. The dates are January 25 to 27 and this is the third such conference sponsored by MBA and the graduate school

(Continued back inside cover)

C. Armel Nutter

DON'T MISS CHICAGO CLINIC FEB. 24-25

★ *One of your best investments in 1949 will be giving these two days to attending the Clinic*

IF YOU are like most mortgage men today, 1949 opened with a number of uncertainties, a somewhat clouded horizon and considerable confusion in your mind as to just how the coming months will work out. In such circumstances, a MBA Clinic is what you need. Get together with others in the business, learn what they're thinking and doing and get a good perspective of what is actually ahead.

Your first opportunity is the Chicago Clinic, Drake Hotel, February 24 and 25. Our program lines up something like this:

>> FIRST DAY MORNING: Talks by President Nielsen and Washington Counsel Neel followed by a panel on *The Mortgage Market in 1949.* Individual subjects concern *The Government's Housing Program, Sources of Mortgage Money* and *Interest Rates.* Edgar N. Greenebaum, Chicago, will moderate the session.

Ferd Kramer

Edgar Greenebaum

>> FIRST AFTERNOON: After lunch we will switch from mortgages to real estate and a panel group will discuss the realty market with Robert H. Pease, Chicago, as moderator. Specific subjects will include a discussion of the general outlook and the prospects for commercial, industrial, residential and apartment property.

>> FIRST EVENING: This is new—an evening session. We haven't had many of them before but the times and circumstances are such that we want to get as much into two days as we can. Thursday evening you will hear VA officials explore foreclosure proceedings from A to Z and a RFC official describe reporting procedures for selling loans to that agency. Here is an opportunity to become fully posted on these two important operations.

>> SECOND DAY: All of Friday will be given over to a discussion of something that should interest everyone—*How to Increase Your Profits in 1949.* The moderator will be Byron T. Shutz, Kansas City, and five subjects to be explored are: *The Mortgage Banker's Place in Redeveloping Our Cities, Institutional Purchase of Real Estate, Profits Through Forming Syndicates, Profits Through Sale of Life Insurance* and *Efficiency of Operations.*

Notice we didn't mention speakers. We have acceptances from about half of them and in a few days will send an advance program listing them all. Most are new to MBA audiences and each one is an authority in his field.

Our officers and governors will be in Washington during the two days before the Clinic and will have some late, up-to-the-minute capital observations to pass along during the forum discussion.

This first 1949 Clinic is something you shouldn't miss. You have received our special letter containing the hotel reservation card. The important thing is to get that card back to the hotel without delay.

The New York Clinic is April 4 and 5 and a third is set for Los Angeles May 5 and 6. Plans for the latter haven't been made but you'll hear more about them soon. This year, with three regional Clinics, every member can attend at least one meeting. But if you can attend more, you'll find each one different.

OTHER MBAs

This is the time of year for annual meetings and election of new officers in local mortgage banking associations across the country. Here are some recent developments:

» PITTSBURGH: H. Vane Silberstein, secretary, Pittsburgh Mortgage Corporation, was elected president of the Mortgage Bankers Association of Pittsburgh at the annual meeting. Robert E. Keefe of The Farmers Deposit National Bank of Pittsburgh, was elected vice president and P. H. McAuley of Construction Acceptance Corporation was elected secretary.

» CHICAGO: Lindell Peterson, president, Chicago Mortgage Investment Co., is the nominee for president of Chicago Mortgage Bankers Association.

Other officers and directors selected by the nominating committee are:

Harry H. Salk, American National Bank & Trust Co., vice president; and Larry Goelzer, Ward Farnsworth & Co., secretary-treasurer.

Directors for the two-year term ending in 1950 are: D. R. Beaumont, Percy Wilson Mortgage & Finance Corp.; Charles H. Brandt, Charles H. Brandt & Co., Inc.; Philip T. Green, Coonley & Green, Inc.; George S. Kelly, Sharon Mortgage Co.; Herbert F. Philipsborn, H. F. Philipsborn & Co.; Thomas J. Purcell, Hogan & Farwell, Inc.; and Albert C. Svoboda, University of Chicago. For one-year term to fill a vacancy in 1949: William B. Higginbotham, South Chicago Savings Bank.

At the annual meeting, members heard an address by Dr. Irving J. Lee, chairman of the school of speech, Northwestern University, saw movies of the Rose Bowl game and heard the address of the retiring president, Wilbur F. Pilgrim.

» DALLAS: Herman Van Maanen, assistant secretary of the Reserve Loan Life Insurance Company of Texas and manager of the mortgage loan department, has been elected vice president of the Dallas Mortgage Bankers Association.

» DETROIT: At the January meeting of Detroit Mortgage Bankers Association, members heard Edward D. Connor, director of the Detroit Housing Commission, and chairman of the State's new housing committee, speak on the present situation in housing.

» CLEVELAND: J. B. Wilson of Massachusetts Mutual Life Insurance Co. is the new president of the Cleveland MBA, succeeding Harvey Goss of Central National Bank. Edward F. Meyers of Union Bank of Commerce was named vice president, Jay Zook of Jay Zook Inc. is the new secretary and Floyd Graham of Ostendorf-Morris Co. was elected treasurer. Named to the board of governors were Kenneth P. Twombly of Travelers Insurance Co. and James T. Johnston of Society for Savings.

(Continued next page)

MBA CALENDAR OF 1949 EVENTS

January 24, President Nielsen addresses Iowa MBA.

February 8, President Nielsen addresses Minneapolis MBA.

February 22-23, Washington, D. C. Board of Governors Meeting.

February 24-25, Chicago, First 1949 Clinic, Drake Hotel.

April 4-5, New York, Second 1949 Clinic, Hotel Commodore.

April 14-15, Houston annual convention, Texas MBA, Shamrock Hotel.

May 5-6, Los Angeles, Third 1949 Mortgage Clinic.

May 20, Chicago, Spring Meeting, Board of Governors, Drake Hotel.

June 20-25, Chicago, MBA-Northwestern University Mortgage Banking Seminar.

September 19, 20 and 21, Chicago, 36th Annual MBA Convention, Palmer House.

>> HOUSTON: I. D. Richardson, now with Northwestern National Life in Houston, recently addressed the Houston Mortgage Bankers Association. Richardson, who is said to be one of the few—if not the only man—to hold officer rank in both army and navy during the war, was a member of Torpedo Boat Squadron No. 3. This group's exploits was the basis of the best-seller, "They Were Expendable." Richardson later co-authored a book, "The American Guerrilla in the Philippines." J. G. Hestwood, president, presided.

>> OKLAHOMA: R. O. Deming, Jr., MBA vice president, and Dr. M. M. Blair of the University of Tulsa, were the speakers at the recent meeting of the Oklahoma Mortgage Association in Tulsa.

>> TEXAS: For their winter board meeting, directors of Texas MBA went to San Antonio for a two-day session January 7 and 8. The new Shamrock Hotel in Houston will be the scene of the annual convention April 14 and 15, directors decided.

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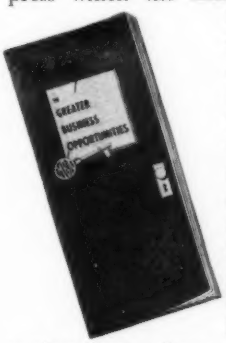
WRITE FOR BOOKLET

The Key to Greater Business Opportunities is the title of a booklet just off the press which the Membership Committee, headed by Aubrey M. Costa of Dallas, chairman, will use this year in spreading the news of the advantages of MBA membership. All members have received a copy. Mr. Costa would like to send you an additional supply to use in effectively contacting those whom you feel qualified for membership.



Mr. Costa has the campaign well underway and is determined to make 1949 a banner membership year. The booklet briefly describes the MBA services, meetings and advantages of belonging to the only national organization devoted exclusively to the interests of the mortgage lender and investor. Write for a supply of these booklets and help your Association do a good job of rounding out its peak membership this year. Using this booklet will enable members to write short personal letters to non-members stating the advantages which they have secured from affiliation and then referring them to the booklet for a concise description of the facilities and services which the Association offers.

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MBA-NYU EDUCATIONAL COURSE

(Continued from page 10)

of business administration, Dr. G. Rowland Collins, dean *(see cover)*.

Other speakers include Martin R. Gainsbrugh, Dr. Jules I. Bogen, Dr. Paul Studenski, Dr. Herbert B. Dorau, Dr. Jules Backman, Dr. Solomon Fabricant, Dr. Thomas J. Anderson, Dr. Coleman L. Maze, Dr. Theodore Lang, Dr. Marcus Nadler, Dr. Lewis H. Haney and Dr. Walter E. Spahr, all of NYU's faculty.

Others are President Nielsen; A. S. J. Baster, economic affairs officer of the United Nations; Wilson E. Wright, economist, Armstrong Cork Company; Claude L. Benner, vice president, Continental American Life Insurance Company, Wilmington, and C. Armel Nutter, Camden, N. J., co-chairman of our educational committee and in charge of the conference this year.

Subjects will be the federal government's role in housing, effect of present taxes on real estate and investments, influence of taxes on venture capital and savings, outlook for building, public housing, wages, productivity and profits, supply and price of money, British experience in post-war planning and economic interventionism.

In addition to President Nielsen and Mr. Nutter, MBA is being represented by Secretary George H. Patterson, Milton T. MacDonald, Jersey City; Paul P. Swett, Jr., Baltimore; Robert E. Goldsby, Elizabeth, N. J.; John C. Thompson, Newark, and Thomas E. Lovejoy and Wallace W. True, New York.